INDIANA HOUSING FINANCE AUTHORITY

Financial Statements

December 31, 1998 and 1997

(With Independent Auditors' Report Thereon)

INDEPENDENT AUDITORS' REPORT
UNQUALIFIED OPINION ON FINANCIAL STATEMENTS

To the Members of the
Indiana Housing Finance Authority:

We have audited the combined and individual balance sheets of the various funds of the Indiana Housing Finance Authority as of December 31, 1998 and 1997 and the related combined and individual statements of revenues, expenses and changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined and individual financial positions of the various funds of the Indiana Housing Finance Authority as of December 31, 1998 and 1997 and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 1999 on our consideration of the Indiana Housing Finance Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

As discussed in note 2 of the notes to the financial statements, the Authority restated its December 31, 1997 financial statements for the effects of adopting Government Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

The year 2000 supplementary information in footnote 10 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the nature of the subject matter underlying the disclosure requirements and because sufficiently specific criteria regarding the matters to be disclosed have not been established. In addition, we do not provide assurance that the Indiana Housing Finance Authority is or will become year 2000 compliant, that the Indiana Housing Finance Authority's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Indiana Housing Finance Authority does business are or will become year 2000 compliant.

KPMG LLP

Indianapolis, Indiana
March 12, 1999

INDIANA HOUSING FINANCE AUTHORITY

Balance Sheets

December 31, 1998 and 1997

Assets	General Fund Administration (1998)	General Fund Investments (1998)	Single Family Mortgage Program Fund (1998)	Residential Mortgage Program Fund (1998)	GNMA Mortgage Program Fund (1998)	Multi-Unit Mortgage Program Fund (1998)	First Home Mortgage Program Fund (1998)	Working Families Program Fund (1998)	Combined (1998)	1997 Combined
Cash and investments	$ 20,999,766	52,911,784	204,337,277	2,106,910	5,936,823	7,464,063	508,637	1,758,605	296,023,865	262,912,100
Mortgage loans receivable (note 5)	—	6,967,169	358,975,454	5,546,418	104,846,183	36,836,693	15,557,605	45,320,898	574,050,420	542,716,074
Less unamortized commitment fees	(86,410)	—	(548,099)	(130,040)	(1,202,045)	(1,191,076)	—	—	(3,157,670)	(3,925,539)
Net mortgage loans receivable	(86,410)	6,967,169	358,427,355	5,416,378	103,644,138	35,645,617	15,557,605	45,320,898	570,892,750	538,790,535
Accrued interest receivable:										
Investments	230,155	96,099	454,680	78,650	304,368	22,034	27,018	–	1,213,004	2,941,592
Mortgage loans	—	54,975	2,054,458	33,640	672,939	252,431	83,136	256,642	3,408,221	3,356,788
Deferred debt issuance costs, ne	244,183	154,547	5,005,403	—	1,084,396	354,302	114,977	418,056	7,375,864	6,952,782
Office furniture and equipment, at cost									—	—
less accumulated depreciation	131,764	—	—	—	—	—	—	—	131,764	152,223
Other assets	772,396	6,738	194,133	—	—	—	—	—	973,267	998,275
Interfund accounts	439,298	172,316	6,317,477	(6,781,933)	(60,820)	(29,366)	(12,172)	(44,800)	—	—
Total assets	$ 22,731,152	60,363,628	576,790,783	853,645	111,581,844	43,709,081	16,279,201	47,709,401	880,018,735	816,104,295
Liabilities and Equity										
Liabilities:										
Bonds payable (note 6)	$ —	—	510,305,000	—	100,065,000	42,540,576	16,615,000	45,650,000	715,175,576	670,897,254
Less original issue discoun	—	—	(57,568)	—	—	(183,787)	—	—	(241,355)	(272,781)
Net bonds payable	—	—	510,247,432	—	100,065,000	42,356,789	16,615,000	45,650,000	714,934,221	670,624,473
Collateralized bank loans (note 6)	—	47,885,000	—	—	—	—	—	—	47,885,000	36,537,000
Accrued interest payable	—	2,595	285,789	—	—	118,571	—	—	406,955	113,251
Commitment fee deposits	654,954	—	—	—	—	—	—	—	654,954	1,048,848
Accounts payable and other liabilities (note 8)	148,633	—	—	—	237,190	128,851	—	549,973	1,064,647	1,054,074
Total liabilities	803,587	47,887,595	510,533,221	—	100,302,190	42,604,211	16,615,000	46,199,973	764,945,777	709,377,646
Equity	21,927,565	12,476,033	66,257,562	853,645	11,279,654	1,104,870	(335,799)	1,509,428	115,072,958	106,726,649
Total liabilities and equity	$ 22,731,152	60,363,628	576,790,783	853,645	111,581,844	43,709,081	16,279,201	47,709,401	880,018,735	816,104,295

(Continued)

INDIANA HOUSING FINANCE AUTHORITY

Balance Sheets

December 31, 1998 and 1997

					1997				
Assets	General Fund Administration	General Fund Investments	Single Family Mortgage Program Fund	Residential Mortgage Program Fund	GNMA Mortgage Program Fund	Multi-Unit Mortgage Program Fund	First Home Mortgage Program Fund	Working Families Program Fund	Combined
Cash and investments	$ 20,129,656	37,521,071	173,110,806	3,660,966	10,687,405	12,272,301	1,104,973	4,424,922	262,912,100
Mortgage loans receivable (note 5)	—	9,781,693	290,647,077	8,242,042	140,476,592	32,528,999	16,414,657	44,625,014	542,716,074
Less unamortized commitment fees	(113,505)	—	(779,394)	(196,938)	(1,628,125)	(1,207,577)	—	—	(3,925,539)
Net mortgage loans receivable	(113,505)	9,781,693	289,867,683	8,045,104	138,848,467	31,321,422	16,414,657	44,625,014	538,790,535
Accrued interest receivable:									
Investments	298,168	129,573	2,154,105	—	97,486	22,789	36,766	202,705	2,941,592
Mortgage loans	—	85,806	1,719,303	54,335	900,781	255,805	87,545	253,213	3,356,788
Deferred debt issuance costs, net	262,383	238,954	3,913,868	182,904	1,381,166	388,012	143,040	442,455	6,952,782
Office furniture and equipment, at cost									—
less accumulated depreciation	152,223	—	—	—	—	—	—	—	152,223
Other assets	813,608	3,426	181,241	—	—	—	—	—	998,275
Interfund accounts	581,633	172,316	(357,912)	(8,107)	(80,911)	(29,810)	(12,815)	(264,394)	—
Total assets	$ 22,124,166	47,932,839	470,589,094	11,935,202	151,834,394	44,230,519	17,774,166	49,683,915	816,104,295
Liabilities and Equity									
Liabilities:									
Bonds payable (note 6)	$ —	—	411,055,000	10,820,151	139,755,000	43,147,103	18,120,000	48,000,000	670,897,254
Less original issue discount	—	—	(66,676)	(6,738)	—	(199,367)	—	—	(272,781)
Net bonds payable	—	—	410,988,324	10,813,413	139,755,000	42,947,736	18,120,000	48,000,000	670,624,473
Collateralized bank loans (note 6)	—	36,537,000	—	—	—	—	—	—	36,537,000
Accrued interest payable	—	—	28,683	—	—	84,568	—	—	113,251
Commitment fee deposits	1,048,848	—	—	—	—	—	—	—	1,048,848
Accounts payable and other liabilities (note 8)	136,488	—	—	—	238,790	128,823	—	549,973	1,054,074
Total liabilities	1,185,336	36,537,000	411,017,007	10,813,413	139,993,790	43,161,127	18,120,000	48,549,973	709,377,646
Equity	20,938,830	11,395,839	59,572,087	1,121,789	11,840,604	1,069,392	(345,834)	1,133,942	106,726,649
Total liabilities and equity	$ 22,124,166	47,932,839	470,589,094	11,935,202	151,834,394	44,230,519	17,774,166	49,683,915	816,104,295

See accompanying notes to financial statements

INDIANA HOUSING FINANCE AUTHORITY

Statements of Revenues, Expenses, and Changes in Equity

For the years ended December 31, 1998 and 1997

	1998									
	General Fund Administration	General Fund Investments	Single Family Mortgage Program Fund	Residential Mortgage Program Fund	GNMA Mortgage Program Fund	Multi-Unit Mortgage Program Fund	First Home Mortgage Program Fund	Working Families Program Fund	Combined	1997 Combined
Revenues:										
Interest income on mortgage loans	$ —	903,403	23,044,861	615,740	9,656,117	3,047,348	1,025,006	3,103,817	41,396,292	37,647,857
Interest income on investments	1,207,854	3,099,099	11,012,109	334,753	1,523,125	654,273	68,556	251,617	18,151,386	19,076,076
Commitment fee amortization	27,095	—	231,295	66,898	426,080	16,501	—	—	767,869	587,138
Fee income	3,874,211	—	—	—	—	—	—	—	3,874,211	4,642,717
Net increase (decrease) in fair value of securities	20,498	(703,998)	1,193,448	—	(1,553,332)	73,278	(3,688)	105,584	(868,210)	1,150,279
Other income	727,816	—	—	—	—	—	—	—	727,816	705,240
Total Revenues	5,857,474	3,298,504	35,481,713	1,017,391	10,051,990	3,791,400	1,089,874	3,461,018	64,049,364	63,809,307
Expenses:										
Interest expense on bonds	—	—	27,330,101	449,345	10,142,271	2,938,530	1,020,570	2,942,788	44,823,605	41,175,742
Accretion on capital appreciation and compound interest bonds	—	—	—	375,714	—	115,473	—	—	491,187	511,308
Amortization of original issue discount	—	—	6,159	2,100	—	15,581	—	—	23,840	31,431
	—	—	27,336,260	827,159	10,142,271	3,069,584	1,020,570	2,942,788	45,338,632	41,718,481
Interest expense on bank loans	—	2,065,758	—	—	—	—	—	—	2,065,758	2,702,161
Amortization of debt issuance costs	18,200	84,407	352,612	41,200	296,770	33,710	28,063	24,399	879,361	890,492
Servicing fees on mortgage loans	—	32,916	177,026	27,163	—	35,715	—	—	272,820	349,394
Arbitrage expense	—	—	—	—	—	—	—	—	—	70
General and administrative expenses	2,813,210	35,229	1,089,217	19,006	173,899	343,913	31,206	92,744	4,598,424	4,277,739
Total expenses	2,831,410	2,218,310	28,955,115	914,528	10,612,940	3,482,922	1,079,839	3,059,931	53,154,995	49,938,337
Excess of revenues over expenses before gain on sales of investments and extraordinary items	3,026,064	1,080,194	6,526,598	102,863	(560,950)	308,478	10,035	401,087	10,894,369	13,870,970
Gain (loss) on sale of investments (note 7)	(7,930)	—	—	—	—	—	—	—	(7,930)	—
Extraordinary items (note 7):										
Bond call premium	—	—	(292,625)	(224,666)	—	—	—	—	(517,291)	(146,375)
Write-off of debt issuance costs	—	—	(145,549)	(141,704)	—	—	—	—	(287,253)	(151,655)
Write-off of original issue discount	—	—	(2,949)	(4,637)	—	—	—	—	(7,586)	(25,239)
Total gain (loss) and extraordinary items	(7,930)	—	(441,123)	(371,007)	—	—	—	—	(820,060)	(323,269)
Net income (loss)	3,018,134	1,080,194	6,085,475	(268,144)	(560,950)	308,478	10,035	401,087	10,074,309	13,547,701
Equity, beginning of year	20,938,830	11,395,839	59,572,087	1,121,789	11,840,604	1,069,392	(345,834)	1,133,942	106,726,649	91,186,127
Cumulative effect of accounting change	—	—	—	—	—	—	—	—	—	2,292,821
Equity, beginning of year, as restated	20,938,830	11,395,839	59,572,087	1,121,789	11,840,604	1,069,392	(345,834)	1,133,942	106,726,649	93,478,948
Other (note 1)	(1,455,000)	—	—	—	—	(273,000)	—	—	(1,728,000)	(300,000)
Distributions between funds	(574,399)	—	600,000	—	—	—	—	(25,601)	—	—
Equity, end of year	$ 21,927,565	12,476,033	66,257,562	853,645	11,279,654	1,104,870	(335,799)	1,509,428	115,072,958	106,726,649

(Continued)

INDIANA HOUSING FINANCE AUTHORITY

Statements of Revenues, Expenses, and Changes in Equity

For the years ended December 31, 1998 and 1997

		1997								
		General Fund Administration	General Fund Investments	Single Family Mortgage Program Fund	Residential Mortgage Program Fund	GNMA Mortgage Program Fund	Multi-Unit Mortgage Program Fund	First Home Mortgage Program Fund	Working Families Program Fund	Combined
Revenues:										
Interest income on mortgage loans	$	—	1,230,325	17,582,887	811,172	11,724,758	3,080,938	1,102,723	2,115,054	37,647,857
Interest income on investments		1,197,555	3,604,081	11,133,116	322,458	1,227,852	427,389	66,858	1,096,767	19,076,076
Commitment fee amortization		27,389	—	243,904	46,577	254,405	14,863	—	—	587,138
Fee income		4,642,717	—	—	—	—	—	—	—	4,642,717
Net increase (decrease) in fair value of securities		33,190	(489,385)	308,812	—	1,268,589	79,690	351,606	(402,223)	1,150,279
Other income		705,240	—	—	—	—	—	—	—	705,240
Total Revenues		6,606,091	4,345,021	29,268,719	1,180,207	14,475,604	3,602,880	1,521,187	2,809,598	63,809,307
Expenses:										
Interest expense on bonds		—	—	21,749,223	586,526	12,024,009	2,772,225	1,089,876	2,953,883	41,175,742
Accretion on capital appreciation and compound interest bonds		—	—	—	406,568	—	104,740	—	—	511,308
Amortization of original issue discount		—	—	13,409	2,081	—	15,941	—	—	31,431
		—	—	21,762,632	995,175	12,024,009	2,892,906	1,089,876	2,953,883	41,718,481
Interest expense on bank loans		—	2,702,161	—	—	—	—	—	—	2,702,161
Amortization of debt issuance costs		10,617	93,745	377,976	41,162	284,604	34,852	25,090	22,446	890,492
Servicing fees on mortgage loans		—	44,410	233,811	35,016	—	36,157	—	—	349,394
Arbitrage expense		—	—	70	—	–	–	–	–	70
General and administrative expenses		2,706,139	28,535	844,738	22,310	210,257	347,735	46,213	71,812	4,277,739
Total expenses		2,716,756	2,868,851	23,219,227	1,093,663	12,518,870	3,311,650	1,161,179	3,048,141	49,938,337
Excess of revenues over expenses before gain on sales of investments and extraordinary items		3,889,335	1,476,170	6,049,492	86,544	1,956,734	291,230	360,008	(238,543)	13,870,970
Gain (loss) on sale of investments (note 7)		—	—	—	—	—	—	—	—	—
Extraordinary items (note 7):										
Bond call premium		—	—	(146,375)	—	—	—	—	—	(146,375)
Write-off of debt issuance costs		—	—	(131,281)	—	(20,374)	—	—	—	(151,655)
Write-off of original issue discount		—	—	(25,239)	—	—	—	—	—	(25,239)
Total gain (loss) and extraordinary items		—	—	(302,895)	—	(20,374)	—	—	—	(323,269)
Net income (loss)		3,889,335	1,476,170	5,746,597	86,544	1,936,360	291,230	360,008	(238,543)	13,547,701
Equity, beginning of year		17,602,258	6,967,822	57,342,866	1,035,245	5,509,708	1,027,260	212,184	1,488,784	91,186,127
Cumulative effect of accounting change		(763)	2,951,847	(4,069,376)	–	4,394,536	50,902	(918,026)	(116,299)	2,292,821
Equity, beginning of year, as restated		17,601,495	9,919,669	53,273,490	1,035,245	9,904,244	1,078,162	(705,842)	1,372,485	93,478,948
Other (note 1)		—	—	—	—	—	(300,000)	—	—	(300,000)
Distributions between funds		(552,000)	—	552,000	—	—	—	—	—	—
Equity, end of year	$	20,938,830	11,395,839	59,572,087	1,121,789	11,840,604	1,069,392	(345,834)	1,133,942	106,726,649

See accompanying notes to financial statements

INDIANA HOUSING FINANCE AUTHORITY

Statements of Cash Flows

For the years ended December 31, 1998 and 1997

		1998								
		General Fund Administration	General Fund Investments	Single Family Mortgage Program Fund	Residential Mortgage Program Fund	GNMA Mortgage Program Fund	Multi-Unit Mortgage Program Fund	First Home Mortgage Program Fund	Working Families Program Fund	Combined
Cash flows from operating activities:										
Net income (loss)	$	3,018,134	1,080,194	6,085,475	(268,144)	(560,950)	308,478	10,035	401,087	10,074,309
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities:										
Loss on sale of securities		7,930	—	—	—	—	—	—	—	7,930
Change in fair value of securities		(20,498)	703,998	(1,193,448)	—	1,553,332	(73,278)	3,688	(105,584)	868,210
Investment income		(1,207,854)	(3,099,099)	(11,012,109)	(334,753)	(1,523,125)	(654,273)	(68,556)	(251,617)	(18,151,386)
Interest on bonds		—	2,065,758	27,330,101	449,345	—	2,938,530	1,020,570	2,942,788	36,747,092
Amortization and write-off of debt issuance costs and discount amortization		18,200	84,407	507,269	189,641	296,770	49,290	28,063	24,399	1,198,039
Amortization of nonrefundable fee income		(27,095)	—	(231,295)	(66,898)	(426,080)	(16,501)	—	—	(767,869)
Accretion on capital appreciation and compound interest bonds		—	—	—	375,714	—	115,473	—	—	491,187
Changes in account balances										
Nonrefundable fees received and commitment fee deposits		(393,894)	—	—	—	—	—	—	—	(393,894)
Purchase of mortgage loans		—	—	(101,552,999)	—	—	(4,344,789)	—	(3,357,672)	(109,255,460)
Principal repayments on mortgage loans		—	2,814,524	33,615,360	2,695,624	34,077,077	37,095	853,364	2,767,372	76,860,416
Accrued interest receivable on loans		—	30,830	(335,155)	20,695	227,842	3,374	4,409	(3,429)	(51,434)
Other assets		41,212	(3,312)	(12,892)	—	—	—	—	—	25,008
Accounts payable and other liabilities		12,145	—	—	—	(1,600)	28	—	—	10,573
Interfund accounts		142,335	—	(6,675,389)	6,773,826	(20,091)	(444)	(643)	(219,594)	—
Interfund transfer		(574,399)	—	600,000	—	—	—	—	(25,601)	—
Net cash provided (used) by operating activities		1,016,216	3,677,300	(52,875,082)	9,835,050	33,623,175	(1,637,017)	1,850,930	2,172,149	(2,337,279)

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INDIANA HOUSING FINANCE AUTHORITY

Statements of Cash Flows

For the years ended December 31, 1998 and 1997

		1998								
		General Fund Administration	General Fund Investments	Single Family Mortgage Program Fund	Residential Mortgage Program Fund	GNMA Mortgage Program Fund	Multi-Unit Mortgage Program Fund	First Home Mortgage Program Fund	Working Families Program Fund	Combined
Cash flows from non capital financing activities										
Proceeds from bond issues	$	—	—	147,040,000	—	—	—	—	—	147,040,000
Proceeds from bank loans		—	44,050,000	—	—	—	—	—	—	44,050,000
Payments on collateralized bank loans		—	(32,702,000)	—	—	—	—	—	—	(32,702,000)
Debt issuance costs incurred		—	—	(1,589,696)	—	—	—	—	—	(1,589,696)
Repayments and redemption of bonds		—	—	(47,790,000)	(11,195,864)	—	(722,000)	(1,505,000)	(2,350,000)	(63,562,864)
Interest paid on bonds		—	(2,063,163)	(27,072,995)	(449,345)	—	(2,904,527)	(1,020,570)	(2,942,788)	(36,453,388)
Contribution from Pedcor		—	—	—	—	—	27,000	—	—	27,000
Trust fund contribution		(1,455,000)	—	—	—	—	(300,000)	—	—	(1,755,000)
Net cash provided (used) by non capital financing activities		(1,455,000)	9,284,837	70,587,309	(11,645,209)	—	(3,899,527)	(2,525,570)	(5,292,788)	55,054,052
Cash flows from capital financing activities:										
Purchase of furniture and equipment (net of depreciation reimbursement from Program Funds)		20,459	—	—	—	—	—	—	—	20,459
Net cash provided by capital financing activities		20,459	—	—	—	—	—	—	—	20,459
Cash flows from investing activities										
Purchases of investments		(25,105,112)	(16,437,516)	(24,748,149)	—	—	—	—	(917,901)	(67,208,678)
Interest received on investments		1,275,867	3,132,573	12,711,534	256,103	1,316,243	655,028	78,304	454,322	19,879,974
Proceeds from sales or maturities of investment		24,000,000	—	—	2,070,000	4,750,582	8,483,140	596,336	—	39,900,058
Net cash provided (used) by investing activities		170,755	(13,304,943)	(12,036,615)	2,326,103	6,066,825	9,138,168	674,640	(463,579)	(7,428,646)
Increase (decrease) in cash and cash equivalents		(247,570)	(342,806)	5,675,612	515,944	—	3,601,624	—	(3,584,218)	5,618,586
Cash and cash equivalents, beginning of year		2,824,563	554,130	27,697,899	1,590,966	—	2,841,793	—	3,584,218	39,093,569
Cash and cash equivalents, end of year	$	2,576,993	211,324	33,373,511	2,106,910	—	6,443,417	—	—	44,712,155
Reconciliation of cash and cash equivalents										
Cash and investments as presented in the balance sheet		20,999,766	52,911,784	204,337,277	2,106,910	5,936,823	7,464,063	508,637	1,758,605	296,023,865
Less: investments with maturities greater than three months		18,422,773	52,700,460	170,963,766	—	5,936,823	1,020,646	508,637	1,758,605	251,311,710
Cash and cash equivalents as presented in the statement of cash flows	$	2,576,993	211,324	33,373,511	2,106,910	—	6,443,417	—	—	44,712,155

See accompanying notes to financial statements

INDIANA HOUSING FINANCE AUTHORITY

Statements of Cash Flows

For the years ended December 31, 1998 and 1997

		1997								
		General Fund Administration	General Fund Investments	Single Family Mortgage Program Fund	Residential Mortgage Program Fund	GNMA Mortgage Program Fund	Multi-Unit Mortgage Program Fund	First Home Mortgage Program Fund	Working Families Program Fund	Combined
Cash flows from operating activities:										
Net income (loss)	$	3,889,335	1,476,170	5,746,597	86,544	1,936,360	291,230	360,008	(238,543)	13,547,701
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities:										
(Gain) loss on sale of securities		—	—	—	—	—	—	—	—	—
Change in fair value of securities		(33,190)	489,385	(308,812)	—	(1,268,589)	(79,690)	(351,606)	402,223	(1,150,279)
Gain on retirement of bonds		—	—	—	—	—	—	—	—	—
Investment income		(1,197,555)	(3,604,081)	(11,133,116)	(322,458)	(1,227,852)	(427,389)	(66,858)	(1,096,767)	(19,076,076)
Interest on bonds		—	2,702,161	21,749,223	586,546	12,024,009	2,761,262	1,089,876	2,953,883	43,866,960
Amortization and write-off of debt issuance costs and discount amortization		10,617	93,745	547,905	43,243	304,978	50,793	25,090	22,446	1,098,817
Amortization of nonrefundable fee income		(27,389)		(243,904)	(46,577)	(254,405)	(14,863)	—	—	(587,138)
Accretion on capital appreciation and compound interest bonds		—	—	—	406,568	—	104,740	—	—	511,308
Changes in account balances										
Nonrefundable fees received and commitment fee deposits		(746,273)	—	—	—	—	—	—	—	(746,273)
Purchase of mortgage loans		—	—	(124,869,169)			(2,014,728)		(41,686,884)	(168,570,781)
Principal repayments on mortgage loans		—	3,754,083	22,879,466	1,900,497	20,877,317	354,819	1,353,921	441,439	51,561,542
Accrued interest receivable on loans		—	33,432	(510,529)	10,192	139,483	6,865	6,975	(231,664)	(545,246)
Other assets		(342,449)	3,558	(80,798)	—	—	—	—	—	(419,689)
Accounts payable and other liabilities		39,949	—	(59,200)	—	—	26	—	—	(19,225)
Interfund accounts		90,773	—	163,118	(1,179)	(13,088)	—	(14,859)	(224,365)	400
Interfund transfer		(552,000)	—	552,000	—	—	(400)	—	—	(400)
Net cash provided (used) by operating activities		1,131,818	4,948,453	(85,567,219)	2,663,376	32,518,213	1,032,665	2,402,547	(39,658,232)	(80,528,379)

(Continued)

INDIANA HOUSING FINANCE AUTHORITY

Statements of Cash Flows

For the years ended December 31, 1998 and 1997

	1997								
	General Fund Administration	General Fund Investments	Single Family Mortgage Program Fund	Residential Mortgage Program Fund	GNMA Mortgage Program Fund	Multi-Unit Mortgage Program Fund	First Home Mortgage Program Fund	Working Families Program Fund	Combined
Cash flows from non capital financing activities									
Proceeds from bond issues	$ —	—	147,425,000	—	—	10,000,000	—	—	157,425,000
Proceeds from bank loans	—	—	—	—	—	—	—	—	–
Payments on collateralized bank loans	—	(13,305,000)	—	—	—	—	—	—	(13,305,000)
Debt issuance costs incurred	(273,000)	—	(1,479,002)	—	—	—	—	—	(1,752,002)
Repayments and redemption of bonds	—	—	(39,985,000)	(2,004,247)	(20,940,000)	(645,000)	(970,000)	—	(64,544,247)
Interest paid on bonds	—	(2,702,161)	(22,932,892)	(586,546)	(12,024,009)	(2,763,670)	(1,089,876)	(3,038,271)	(45,137,425)
Trust fund contribution	—	—	—	—	—	(300,000)	—	—	(300,000)
Net cash provided (used) by non capital financing activities	(273,000)	(16,007,161)	83,028,106	(2,590,793)	(32,964,009)	6,291,330	(2,059,876)	(3,038,271)	32,386,326
Cash flows from capital financing activities:									
Purchase of furniture and equipment (net of depreciation reimbursement from Program Funds)	(44,524)	—	—	—	—	—	—	—	(44,524)
Net cash used by capital financing activities	(44,524)	—	—	—	—	—	—	—	(44,524)
Cash flows from investing activities									
Purchases of investments	(12,845,698)	—	(156,414,222)	(250,000)	(817,086)	(7,953,750)	(408,510)	—	(178,689,266)
Interest received on investments	1,107,491	3,632,471	9,380,305	322,458	1,262,882	427,391	65,839	896,126	17,094,963
Proceeds from sales or maturities of investment	13,227,527	7,552,476	148,492,961	—	—	—	—	44,738,016	214,010,980
Net cash provided (used) by investing activities	1,489,320	11,184,947	1,459,044	72,458	445,796	(7,526,359)	(342,671)	45,634,142	52,416,677
Increase (decrease) in cash and cash equivalent	2,303,614	126,239	(1,080,069)	145,041	—	(202,364)	—	2,937,639	4,230,100
Cash and cash equivalents, beginning of year	520,950	427,890	28,777,968	1,445,925	—	3,044,157	—	646,579	34,863,469
Cash and cash equivalents, end of year	$ 2,824,564	554,129	27,697,899	1,590,966	—	2,841,793	—	3,584,218	39,093,569
Reconciliation of cash and cash equivalents									
Cash and investments as presented in the balance sheet	20,097,229	35,058,609	170,807,304	3,660,966	10,687,405	12,141,710	1,104,973	4,424,922	257,983,118
Less: investments with maturities greater than three months	17,272,665	34,504,480	143,109,405	2,070,000	10,687,405	9,299,917	1,104,973	840,704	218,889,549
Cash and cash equivalents as presented in the statement of cash flows	$ 2,824,564	554,129	27,697,899	1,590,966	—	2,841,793	—	3,584,218	39,093,569

See accompanying notes to financial statements

(1) Authorizing Legislation and Funds

The Indiana Housing Finance Authority (the Authority) was created in 1978 by an act of the Indiana Legislature (the Act). The Authority has been given numerous powers under the Act, including the power to enter into contracts and agreements, acquire, hold and convey property and issue notes and bonds, for the purpose of financing residential housing for persons and families of low and moderate incomes.

The powers of the Authority are vested by the Act in seven members, four of whom are appointed by the Governor and three of whom serve by virtue of holding other state offices. The three ex officio members are the Director of Department of Commerce, the Treasurer of State and Director of the Department of Financial Institutions. By statute, the Lieutenant Governor is Director of the Indiana Department of Commerce. The Lieutenant Governor and Treasurer of State hold elective positions, and the Director of the Department of Financial Institutions holds an appointive position at the pleasure of the Governor. The Authority is considered a component unit of the State of Indiana, because they are discretely presented in the State's Financial Statements as determined by the Indiana State Board of Accounts.

The Act empowers the Authority to (1) make or participate in the making of construction loans and mortgage loans to sponsors of federally assisted multi-family residential housing; (2) purchase or participate in the purchase from mortgage lenders, mortgage loans made to persons of low and moderate income for residential housing; and (3) make loans to mortgage lenders for the purpose of furnishing funds to be used for making mortgage loans to persons and families of low and moderate incomes. The Act authorizes the Authority to issue its bonds and notes to carry out its purposes, and neither the Act nor the Bond Trust Indentures establish any limitation as to the aggregate amount of obligations which the Authority may have outstanding.

The Authority's financial statements include the operations of funds that the Authority has established to achieve its purposes under powers granted to it by the Act. The financial transactions of the Authority are recorded in the funds which consist of a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenses as appropriate. The Authority's resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which financial activity is controlled.

General Fund - Administration

The General Fund was established by the Authority to account for all fee income andcharges which are not required to be recorded in other funds and for operating expenses of the Authority. The General Fund also may acquire mortgage loans on a temporary basis before purchase by a Program Fund. In 1998 and 1997, the Authority elected to set aside $24,994,000 and $35,040,243, respectively, of its single family bonding authority for the issuance of Mortgage Credit Certificates. This program is targeted primarily to first time home buyers.

General Fund Investments

The Authority is currently engaged in a Collateralized Bank Loan Program initiated in 1993 (see note 6) in its General Fund. The Authority currently has three bank loans and one line of credit.

Single Family Mortgage Program Fund

In carrying out its purposes the Authority has established a Single Family Mortgage Program providing for the purchase of mortgage loans made to eligible borrowers for owner occupied housing. Some borrowers meeting certain income guidelines may qualify under the Authority's First Home Plus Program which allows the borrower to receive up to 10% of down payment assistance money from the Home Investment Fund. This is a non-amortizing second mortgage at a 0% interest rate which is forgivable after five years. The Authority has issued thirty-three series of Single Family Mortgage Program Bonds (see note 6).

Commencing in June 1980, the Authority entered into mortgage purchase agreements with certain commercial banks, savings and loan associations and mortgage banking companies admitted to do business in the State of Indiana whereby the lenders agreed to originate mortgage loans on newly constructed and existing dwellings meeting criteria established by the Authority and to sell them to the Authority.

Residential Mortgage Program Fund

Established in 1988, the Residential Mortgage Program Fund provides for the purchase of mortgage loans made to eligible borrowers for owner-occupied housing. Mortgage loans are purchased in this fund under the same mortgage purchase agreements with certain commercial banks, savings and loan associations and mortgage banking companies as those in the Single Family Mortgage Program Fund. The Authority has issued one series of Residential Mortgage Program Bonds for the purchase of FHA insured mortgage loans (see note 6). At the Authority's option, a portion of the proceeds from the issuance of the Single Family Mortgage Program 1998 Series D bonds were used to call all of the remaining 1988 RA bonds of the Residential Mortgage Program Fund on January 1, 1999. The remaining mortgage loans of the Residential Mortgage Program Fund were subsequently transferred to the Single Family Mortgage Program Fund 1998 Series D in 1999.

GNMA Mortgage Program Fund

Established in 1989, the GNMA Mortgage Program Fund provides for the purchase of mortgage-backed securities (GNMA Certificates) issued by Calumet Securities Corporation or Great Financial Bank (the Servicers) and guaranteed as to the timely payment of principal and interest by the Government National Mortgage Association (GNMA). GNMA is a wholly-owned corporate instrumentality of the United States within the Department of Housing and Urban Development, with its principal office in Washington, D.C. GNMA Certificates are collateralized by mortgage loans made to qualified persons and families of low or moderate income to finance the acquisition of residences located in the State of Indiana. The Authority has issued seven series of Single Family Mortgage Revenue Bonds (GNMA Mortgage Program Fund) (see note 6).

Multi-Unit Mortgage Program Fund

This fund, established in 1982 under the Multi-Unit Mortgage Program Resolution, is prescribed for accounting for the proceeds used to provide construction and long-term financing for certain federally assisted multi-unit housing developments intended for occupancy by families and persons of low and moderate incomes. The Authority has issued four series of Multi-Unit Program Bonds and is the special purpose issuer for two series (see note 6).

In August of 1997, the Authority, as a special purpose issuer, issued $10,000,000 of Multi-Family Housing Mortgage Revenue Bonds (Cumberland Crossing) under a separate closed indenture, which are included in these financial statements as a part of the Authority's Multi-unit Mortgage Program Fund. The proceeds of the bonds are currently being used to construct a new multi-family residential rental facility containing 232 apartment units. The expended funds are subject to the terms of a loan agreement dated July 1, 1997, and the bonds are secured by two letters of credit issued by the Federal Home Loan Bank that expire August 21, 2007. Pedcor Investments 1997 XXX LP (Pedcor) is responsible for the bond payments from a source of funds outside of the Authority. Pedcor made a payment of $27,000 which has been reflected in the 1998 financial statements as a reduction to bonds payable and an equity contribution.

In April of 1992, the Authority, as a special purpose issuer, issued $7,230,000 of Multi-Family Housing Mortgage Revenue Bonds (Hunter's Run) under a separate closed indenture, which are included in these financial statements as a part of the Authority's Multi-unit Mortgage Program Fund. The proceeds of the bonds, after funding the required reserves, were used by the project owner to acquire and rehabilitate an existing multi-family residential rental facility containing 304 apartment units. The expended funds are subject to a mortgage loan amortizable over 40 years commencing October 1, 1993. The permanent mortgage is insured by the Federal Housing Administration pursuant to the provisions of Section 221 (d) (4) of the National Housing Act of 1934.

The Multi-Family Housing Mortgage Revenue Bonds are limited and special obligations of the Authority payable solely from the payments on the mortgage note, certain other payments under the Building Loan Agreement made by the owner and required debt service reserves of the issue. Neither the Bonds nor the obligation to pay the principal or interest thereon constitutes an indebtedness of the Authority or the State of Indiana. The Authority receives an annual bond administration fee equal to .15% of the bonds outstanding.

The Authority made a commitment in 1993 to make a permanent contribution for each of five years beginning with 1994 to the Low Income Housing Trust Fund (the Trust Fund). These funds are from the excess revenues from the 1982 Multi-Unit Mortgage Program Indenture (the Indenture). Each year, a total of $300,000 will be given to the Trust Fund from the Indenture. The Indenture paid $300,000 in 1998 and 1997 for the required installments. The final payment of this commitment was made in 1998. The Trust Fund was formed in 1989 under Section 5-20-4 of the Indiana Code. The resources of the Trust Fund are used to provide financial assistance in the form of grants, rent supplements, loans, and loan guarantees. In addition, Trust Fund resources are used to provide technical assistance to nonprofit developers oflow income housing. The Trust Fund is administered by the Authority. Additionally, the Authority and the Trust Fund share the same Board of Directors.

(Continued)

First Home Mortgage Program Fund

Established in 1994, the First Home Indenture provides for the purchase of IHFA-approved low-income mortgage loans which are securitized by the Federal National Mortgage Association (FNMA) and are serviced by Trustcorp. FNMA is a federally chartered stockholder-owned, privately managed corporation which works to provide liquidity to the residential mortgage market. The FNMA Certificates - which guarantee the timely payment of principal and interest to the Indenture - are collateralized by mortgage loans made to qualified persons and families of low income to finance the acquisition of single family residences in the State of Indiana. This program was facilitated by a Down Payment Assistance Program from the federal HOME Program, which provided a 20% second mortgage at 0% interest. Therefore, the Authority offered 100% financing to all participants in this program. The Authority has issued four series in this Indenture, all of which were privately placed with FNMA.

Working Families Program Fund

Established in December of 1994, this Indenture originally provided for the preservation of bond volume in the short term. A portion of the Convertible Option Bonds (COB) were remarketed into a single family mortgage program within this Indenture. The loans of the program are collateralized by FNMA and GNMA certificates. As a part of the remarketing of the COB, in July 1996 the Authority issued two Series within this Indenture. Approximately eighty percent of the bond proceeds are utilized under the same guidelines as the Authority's Single Family Program Fund.

The remaining twenty percent of the bond proceeds have been set aside for a special program referred to as the Working Families Program. This program allows for down payment assistance of 10% in addition to the 10% assistance described in the Single Family Mortgage Program Fund. The source of these additional funds is the positive arbitrage earned under the original COB investments and bonds. These arbitrage funds are loaned to the qualified borrower at 0% and are payable to the Authority upon payoff of the first mortgage.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The Authority's financial statements have been prepared on the basis of the Governmental Proprietary Fund concept as set forth in Statement 1 of the Governmental Accounting Standards Board (GASB). The Governmental Proprietary Fund concept provides that financial activities operated similarly to private business enterprises and financed through fees and charges assessed primarily to users of the services be presented as a single proprietary fund. The financial statements have been prepared using the accrual method of accounting.

(Continued)

In accordance with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority has elected, in addition to applying Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins issued on or before November 30, 1989, to apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

(b) Accounting Change

In March 1997, the Governmental Accounting Standards Board (GASB) issued Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, (Statement No. 31) effective for fiscal years beginning after June 15, 1997. Statement No. 31 requires investment securities to be recorded at fair value and the unrealized gains or losses reported in the Statements of Revenues, Expenses, and Changes in Equity.

The Authority adopted the provisions of Statement No. 31 effective January 1, 1998. This statement was applied retroactively, and the 1997 financial statements were restated to reflect this adoption. As a result of the retroactive adoption, beginning combined 1997 equity was increased by $2,292,821 and net income decreased $868,210 for the year ended December 31, 1998, and increased $1,150,279 for the year ended December 31, 1997.

Following is a summary of the effect of adopting Statement No. 31 on total assets, equity and net income for 1998 and 1997:

		Total Assets			
		With Statement No. 31	Without Statement No. 31	With Statement No. 31	Without Statement No. 31
		1998		1997	
General Fund Administration	$	22,731,152	22,678,227	22,124,166	22,091,739
General Fund Investments		60,363,628	58,605,164	47,932,839	45,470,377
Single Family Mortgage Program Fund		576,790,783	579,357,899	470,589,094	474,349,658
Residential Mortgage Program Fund		853,645	853,645	11,935,202	11,935,202
GNMA Mortgage Program Fund		111,581,844	107,472,051	151,834,394	146,171,269
Multi-Unit Mortgage Program Fund		43,709,081	43,505,211	44,230,519	44,099,927
First Home Mortgage Program Fund		16,279,201	16,849,309	17,774,166	18,340,586
Working Families Program Fund		47,709,401	48,122,339	49,683,915	50,202,437
Combined	$	880,018,735	877,443,845	816,104,295	812,661,195

(Continued)

	Total Equity			
	With Statement No. 31	Without Statement No. 31	With Statement No. 31	Without Statement No. 31
	1998		1997	
General Fund Administration	$ 21,927,565	21,874,640	20,938,830	20,906,403
General Fund Investments	12,476,033	10,717,569	11,395,839	8,933,377
Single Family Mortgage Program Fund	66,257,562	68,824,678	59,572,087	63,332,651
Residential Mortgage Program Fund	853,645	853,645	1,121,789	1,121,789
GNMA Mortgage Program Fund	11,279,654	7,169,861	11,840,604	6,177,479
Multi-Unit Mortgage Program Fund	1,104,870	901,000	1,069,392	938,800
First Home Mortgage Program Fund	(335,799)	234,309	(345,834)	220,586
Working Families Program Fund	1,509,428	1,922,366	1,133,942	1,652,464
Combined	$ 115,072,958	112,498,068	106,726,649	103,283,549

	Net Income (Loss)			
	With Statement No. 31	Without Statement No. 31	With Statement No. 31	Without Statement No. 31
	1998		1997	
General Fund Administration	$ 3,018,134	2,997,636	3,889,335	3,856,145
General Fund Investments	1,080,194	1,784,192	1,476,170	1,965,555
Single Family Mortgage Program Fund	6,085,475	4,892,027	5,746,597	5,437,785
Residential Mortgage Program Fund	(268,144)	(268,144)	86,544	86,544
GNMA Mortgage Program Fund	(560,950)	992,382	1,936,360	667,771
Multi-Unit Mortgage Program Fund	308,478	235,200	291,230	211,540
First Home Mortgage Program Fund	10,035	13,723	360,008	8,402
Working Families Program Fund	401,087	295,503	(238,543)	163,680
Combined	$ 10,074,309	10,942,519	13,547,701	12,397,422

(Continued)

(c) Asset Restrictions

All assets and revenues of the Single Family, Residential, GNMA, Collateralized Home Mortgage, Multi-Unit Mortgage, First Home, and Working Families Program Funds are restricted or pledged as provided by the bond resolutions and indentures of the trust agreements. Assets of the General Fund are not so restricted or pledged except as described in notes 3 and 6.

(d) Investments Securities

Investment securities are recorded at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting of Certain Investments and for External Investment Pools.* Gains and losses on dispositions are determined on the specific identification method.

(e) Bond Issuance Costs

Bond issuance costs are deferred and amortized over the contractual life of the respective bond issue based on the interest method.

(f) Original Issue Discounts

Original issue discounts on bonds are amortized using the interest method, over the life of the bonds to which they relate.

(g) Capital Appreciation Bonds

No interest is paid to holders of Capital Appreciation Bonds (CABS). The CABS accrete at annual compounded rates of approximately 7.96% for the Residential 1988 Series A and 10% for the Multi-Unit 1985 Series A. Such accumulated accretion and interest is included in the accompanying balance sheet as Bonds Payable.

(h) Office Furniture and Equipment

Office furniture and equipment is stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets.

(i) Nonrefundable Fees

Nonrefundable fees received (commitment and buy-down fees) and direct costs associated with originating mortgage loans are deferred and recognized over the life of the mortgage loans.

(j) Other Program Fees

Fees for Mortgage Credit Certificate and Mortgage Revenue Bond Programs are recorded as fee income in the General Fund as certificates are issued. Low Income Housing Tax Credit fees are recognized after tax credits are awarded.

(Continued)

(k) Provision for Possible Loan Losses

No provision for possible loan losses has been made because the Authority has purchased mortgage pool insurance on its loans, or they are fully insured by the FHA, as described in note 5. The remaining loans have been pooled into FNMA or GNMA mortgage-backed securities which guarantee the timely payment of principal and interest on the underlying mortgage loans.

(l) Bonds, Bank Loans and Interest Payable

Bond principal, bank loan principal and interest payments due on January 1 of the following fiscal year are considered paid as of December 31.

(m) Allocation of Expenses Among Funds

The Single Family, Residential, GNMA, First Home, Multi-Unit Mortgage, and Working Families Programs, provide that funds may be transferred to the General Fund for the purpose of paying reasonable and necessary program expenses.

(n) Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and on deposit and investments purchased with a maturity of three months or less.

(3) Restricted Cash and Restricted Investments

The Trust Indentures between the Authority and the Program Trustee established special accounts for the segregation of assets and restriction of the use of bond proceeds and certain other funds received. As of December 31, 1998 and 1997, the assets of all accounts equaled or exceeded the requirements as established by the Indentures. Such assets are restricted for the following purposes:

	Restricted Cash and Investments December 31, 1998									December 31, 1997
	General Fund Administration	General Fund Investments	Single Family Mortgage Program Fund	Residential Mortgage Program Fund	GNMA Mortgage Program Fund	Multi-Unit Mortgage Program Fund	First Home Mortgage Program Fund	Working Families Program Fund	Combined	Combined
Refundable Reservation Fee Escrow Accounts	$ 654,954	—	—	—	—	—	—	—	654,954	1,048,848
Loan or Bond Proceeds Accounts - Payment of issuance costs and purchase of qualified mortgage loans	—	—	129,156,404	—	—	3,287,782	—	66,882	132,511,068	112,355,206
Revenue Accounts-Deposit of Program revenues for debt service payments and Program expense disbursements	—	25,497,952	49,085,626	213,291	5,936,823	619,383	508,637	1,691,723	83,553,435	60,329,747
Mortgage Reserve Accounts-Payment of expenses incurred in protecting the Authority's interest in mortgage loans, including property repair and improvement	—	40,481	2,301,452	—	—	45,386	—	—	2,387,319	2,383,679
Debt Service Reserve Accounts-Equal to the maximum annual amount of debt service requirements on outstanding bonds during current or any future calendar year, a percentage of mortgage loans receivable under the indenture, or the amount of designated as debt service reserve accounts bonds	—	—	23,793,795	1,893,619	—	3,501,321	—	—	29,188,735	28,304,393
Loan Loss Escrow Account-Established to reserve for mortgage loan defaults not covered by the Federal Department of Housing and Urban Development, and shall be maintained at one-half of one percent of the outstanding principal balance of loans purchased	39,958	—	—	—	—	—	—	—	39,958	51,151
Rebate arbitrage account (Hunter's Run)	—	—	—	—	—	10,191	—	—	10,191	8,385
Original ADFA investment	—	16,957	—	—	—	—	—	—	16,957	16,957
Investments collateralizing debt obligations	—	27,356,394	—		—	—	—	—	27,356,394	34,487,522
	$ 694,912	52,911,784	204,337,277	2,106,910	5,936,823	7,464,063	508,637	1,758,605	275,719,011	238,985,888

(Continued)

(4) Cash and Investments

A summary of cash and investments as of December 31, 1998 and 1997 follows:

	1998			
	Category 1	**Category 3**	**Total Fair Value**	**Cost**
Cash and collateralized repurchase agreements	$ 42,275,221	2,436,934	44,712,155	44,712,155
Certificates of deposit	700,000	—	700,000	700,000
U. S. Treasury Bonds and Notes	16,251,933	—	16,251,933	12,887,555
Federal agency obligations	52,753,749	—	52,753,749	50,996,655
Guaranteed investment contracts and other	181,606,028	—	181,606,028	181,606,028
	$ 293,586,931	2,436,934	296,023,865	290,902,393

	1997			
	Category 1	**Category 3**	**Total Fair Value**	**Cost**
Cash and collateralized repurchase agreements	$ 37,370,036	1,723,533	39,093,569	39,093,569
Certificates of deposit	700,000	—	700,000	700,000
U. S. Treasury Bonds and Notes	20,775,852	—	20,775,852	18,173,380
Federal agency obligations	64,629,062	—	64,629,062	62,302,552
Guaranteed investment contracts and other	137,713,617	—	137,713,617	137,713,617
	$ 261,188,567	1,723,533	262,912,100	257,983,118

The Authority’s cash and collateralized repurchase agreements are insured in full by the combination of Federal deposit insurance and the Indiana Public Deposit Insurance Fund. The Authority's investments are categorized by the level of credit risk assumed. Category 1 includes investments insured or registered or held by the entity, its agent or its trustee in the Authority's name. Category 3 includes bank balances that are not collateralized or insured but are held by the Authority's banks. The Bond Indentures permit investments in the direct obligations of, or obligations guaranteed by, the United States of America, obligations issued by certain agencies of the Federal government, and investments collateralized by those types of investments. At December 31, 1998, all investments held by the Authority were in compliance with the requirements of the Indentures.

(5) Mortgage Loans Receivable

The Single Family Mortgage Program requires that no mortgage loan shall knowingly be made to a borrower whose adjusted family income exceeds 125% of the median income for the borrower's geographic area and at least 40% of the mortgage loans purchased by the Authority must be loans to borrowers whose income is below 80% of the median income for the borrower's geographic area. In addition, Section 103A of the Internal Revenue Code specifies certain requirements with respect to the nature of the residence, mortgage and eligibility of the borrower.

The Single Family Mortgage Program Bond Trust Indenture requires that all mortgage loans must be insured by the FHA, VA or, if the loan to value ratio is greater than 80%, by an approved private mortgage insurer under a policy which provides coverage on the outstanding principal balance of the mortgage loan in excess of 72% of the original fair market value of the property.

The Indenture also requires pool insurance at least equal to 10% of the initial principal amount of mortgage loans to be purchased. The Authority has obtained mortgage pool insurance covering net losses on all mortgage loans financed from the proceeds of the 1980 and 1982 Single Family Mortgage Program bonds and from the proceeds of prepayments of such mortgage loans to the extent of 25% of the total initial principal balances of loans. Similar policies have been obtained to the extent of 15% of the total initial principal balances of mortgages to be purchased from proceeds of and nonrefundable fees received in connection with the Authority's 1983 and 1984 series bonds and 10% for 1985, 1986 and 1987 series bonds.

All of the mortgages in the Multi-Unit Mortgage Program Fund except Cumberland Crossing are insured by the FHA. The mortgages are insured under the FHA 221-(d)-4 program. The bonds in the Cumberland Crossing Series are secured by two letters of credit.

The Residential Mortgage Program requires that, except with respect to mortgage loans financed for homes located in targeted areas, all borrowers must have family incomes which are 115% or less, of the greater of the borrower's geographic area's median family income or the statewide median family income. Additionally, no less than two-thirds of the bond proceeds which are used to finance targeted residences shall be for borrowers whose family income is less than 140% of the applicable geographic area's median family income. All mortgages under the Residential Mortgage Program are fully insured by the FHA.

Mortgage loans which collateralize the GNMA Certificates purchased by the Authority under the GNMA Mortgage Program must meet the same requirements as those purchased under the Residential Mortgage Program and are also fully insured by the FHA.

Mortgage loans which collateralize the FNMA certificates purchased by the Authority under the First Home Mortgage Program requires that the loans be made to first-time home owners and meet the standard requirements for FNMA underwritten mortgages, as well as U.S. Department of Housing and Urban Development (HUD) guidelines.

The financing periods of the mortgage loans financed through the Single Family, Residential, GNMA, First Home, and Working Families Mortgage Programs vary in duration from twenty-five to thirty years (principally thirty years). The financing rates at December 31, 1998, are as follows:

Single Family Mortgage Program	Mortgage Rate	Certificate Rate
1985 Series B	6.875% to 13.880%	6.250% to 6.375%
1986 Series A	6.875%	6.250% to 6.375%
1986 Series B	6.875%	6.250% to 6.375%
1987 Series A	8.190%	
1987 Series B	8.950% to 9.470%	
1987 Series C	8.950% to 9.470%	
1992 Series A	7.875% to 13.875%	
1995 Series A	7.440% to 7.540%	6.935% to 6.940%
1995 Series B	6.750% to 9.940%	6.245% to 6.250%
1995 Series C	6.650% to 10.700%	6.135% to 6.150%
1996 Series A	7.150% to 7.250%	6.625% to 6.650%
1996 Series D	7.150% to 9.940%	6.625% to 6.650%
1997 Series A	6.820% to 8.500%	6.295% to 6.320%
1997 Series B	7.300% to 7.350%	6.725% to 6.800%
1997 Series C	7.260% to 7.310%	6.685% to 6.760%
1997 Series D	6.875% to 7.250%	6.250% to 6.700%
1998 Series A	6.500% to 6.875%	6.000% to 6.375%
1998 Series B	6.500% to 6.987%	5.915% to 6.375%

Residential Mortgage Program	Mortgage Rate	Certificate Rate
1988 Series A	8.800% to 8.900%	

GNMA Mortgage Program	Mortgage Rate	Certificate Rate
1989 Series A	8.90%	8.40%
1990 Series A	8.54%	8.04%
1990 Series B	8.30%	7.80%
1990 Series C	8.34%	7.84%
1990 Series D	8.35%	7.85%
1990 Series E	8.54%	8.04%
1990 Series F	8.22%	7.72%

First Home Program	Mortgage Rate	Certificate Rate
1994 Series A	6.75% to 6.90%	6.13% to 6.28%
1994 Series B	6.75%	6.13%
1994 Series C	6.65%	6.03%
1994 Series D	6.65% to 6.80%	6.03% to 6.18%

(Continued)

Working Families Program Fund	Mortgage Rate	Certificate Rate
1994 Series D	7.380% to 7.480%	6.855% to 6.88%
1996 Series B	7.380% to 7.480%	6.855% to 6.88%

GNMA and FNMA certificates, which are included in the mortgage loan receivable balance as presented in the balance sheet, fall under the requirements set forth by the adoption of GASB Statement No. 31. The table below shows the impact of GASB Statement No. 31 on the mortgage loan receivable balance by indenture.

	1998	
	Fair Value	Cost
General Fund Investments	$ 6,967,169	6,967,169
Single Family Mortgage Program Fund	358,975,454	364,648,782
Residential Mortgage Program Fund	5,546,418	5,546,418
GNMA Mortgage Program Fund	104,846,183	100,736,390
Multi-Unit Mortgage Program Fund	36,836,693	36,836,693
First Home Mortgage Program Fund	15,557,605	16,127,712
Working Families Program Fund	45,320,898	45,733,836
Combined	$ 574,050,420	576,597,000

	1997	
	Fair Value	Cost
General Fund Investments	$ 9,781,693	9,781,693
Single Family Mortgage Program Fund	290,647,077	296,711,143
Residential Mortgage Program Fund	8,242,042	8,242,042
GNMA Mortgage Program Fund	140,476,592	134,813,467
Multi-Unit Mortgage Program Fund	32,528,999	32,528,998
First Home Mortgage Program Fund	16,414,657	16,981,077
Working Families Program Fund	44,625,014	45,143,536
Combined	$ 542,716,074	544,201,956

(6) Bonds Payable

Bonds payable at December 31, 1998 and 1997 consisted of (dollars in thousands):

Single Family Mortgage Program Fund	Original Amount	Balance 1998	Balance 1997
1987 Series B:			
Serial bonds (7.60% to 8.20%), due 1997 - 2002	$ 19,000	—	6,855
1987 Series C:			
Term bonds (8.65%), due 2015	46,000	—	—
Term bonds (9.125%), due 2018	15,000	—	5,495
	61,000	—	5,495
1992 A Refunding:			
Serial bonds (5.50% to 6.35%), due 1997 – 2002	17,740	5,400	6,745
Term bonds (6.60%), due 2005	8,775	5,610	5,610
Term bonds (6.75%), due 2009	16,885	10,780	10,780
Term bonds (6.80%), due 2016	38,745	24,725	24,725
	82,145	46,515	47,860
1995 Series A:			
Serial bonds (4.70% to 6.00%), due 1997 – 2008	7,095	5,980	6,445
Term bonds (6.45%), due 2014	5,075	5,075	5,075
Term bonds (6.25%), due 2016	4,230	4,230	4,230
Term bonds (6.10%), due 2025	6,000	3,580	5,550
Term bonds (6.60%), due 2026	12,600	12,600	12,600
	35,000	31,465	33,900
1995 Series B:			
Serial bonds (4.30% to 5.75%), due 1997 – 2008	12,725	9,020	10,660
Term bonds (6.125%), due 2014	8,285	6,985	7,655
Term bonds (6.15%), due 2017	3,825	3,210	3,510
Term bonds (6.30%), due 2019	3,440	2,885	3,165
Term bonds (6.30%), due 2022	3,900	3,305	3,615
Term bonds (6.30%), due 2027	9,760	8,215	9,010
	41,935	33,620	37,615

(Continued)

Bonds payable, continued	Original Amount	Balance 1998	Balance 1997
1995 Series C:			
Serial bonds (4.20% to 5.55%), due 1997 - 2008	10,500	9,240	10,115
Term bonds (5.25%), due 2012	8,680	2,065	4,990
Term bonds (5.95%), due 2015	10,475	10,475	10,475
Term bonds (5.80%), due 2025	14,885	13,955	14,680
Term bonds (6.15%), due 2026	15,460	15,460	15,460
	60,000	51,195	55,720
1996 Series A:			
Serial bonds (4.30% to 6.05%), due 1998 - 2010	7,625	6,775	7,625
Term bonds (5.95%), due 2013	2,450	2,430	2,450
Term bonds (6.25%), due 2017	4,965	4,920	4,965
Term bonds (5.55%), due 2020	4,960	3,865	4,960
Term bonds (6.25%), due 2028	15,000	14,870	15,000
	35,000	32,860	35,000
1996 Series D:			
Serial bonds (4.15% to 5.55%), due 1998 - 2008	8,525	7,690	8,525
Term bonds (6.05%), due 2015	6,890	6,815	6,890
Term bonds (6.35%), due 2021	10,015	9,905	10,015
Term bonds (6.35%), due 2025	8,710	8,610	8,710
Term bonds (5.70%), due 2028	7,045	6,030	7,045
	41,185	39,050	41,185
1997 Series A-1:			
Term bonds (5.10%) due 2016	8,870	8,745	8,870
	8,870	8,745	8,870
1997 Series A-2:			
Serial bonds (4.10% to 5.40%) due 1998 - 2008	7,115	6,785	7,115
Term bonds (6.00%) due 2019	3,710	3,710	3,710
Term bonds (6.10%) due 2022	4,765	4,765	4,765
Term bonds (6.10%) due 2028	10,000	10,000	10,000
	25,590	25,260	25,590
1997 Series B-1:			
Taxable term bonds (7.26%) due 2012	5,000	4,715	5,000
	5,000	4,715	5,000

Bonds payable, continued	Original Amount	Balance 1998	Balance 1997
1997 Series B-2:			
Term bonds (6.00%) due 2016	3,025	3,025	3,025
Term bonds (6.125%) due 2026	11,890	11,890	11,890
Term bonds (6.15%) due 2029	5,085	5,085	5,085
	20,000	20,000	20,000
1997 Series C-1:			
Taxable term bond (floating rate) due 2027	8,940	8,840	8,940
	8,940	8,840	8,940
1997 Series C-2:			
Term bonds (5.70%) due 2016	1,905	1,905	1,905
	1,905	1,905	1,905
1997 Series C-3:			
Serial bonds (4.25% to 5.25%) due 1999 - 2006	1,060	1,060	1,060
Term bonds (5.85%) due 2014	4,460	4,460	4,460
Term bonds (5.95%) due 2028	18,635	18,615	18,635
	24,155	24,135	24,155
1997 Series D-1:			
Taxable term bonds (6.94%) due 2019	14,680	14,680	14,680
	14,680	14,680	14,680
1997 Series D-2:			
Term bonds (5.85%) due 2020	960	960	960
Term bonds (5.875%) due 2024	6,450	6,450	6,450
Term bonds (5.90%) due 2026	4,840	4,840	4,840
Term bonds (5.90%) due 2030	8,070	8,070	8,070
	20,320	20,320	20,320
1997 Series E-1:			
Term bonds (3.80%) due 2017	6,500	—	6,500
	6,500	—	6,500
1997 Series E-2:			
Term bonds (3.85%) due 2022	11,465	—	11,465
	11,465	—	11,465

Bonds payable, continued	Original Amount	Balance 1998	Balance 1997
1998 Series A-1:			
Taxable term bonds (6.18%) due 2029	7,035	7,035	—
	7,035	7,035	—
1998 Series A-2:			
Serial bonds (4.85% to 4.95%) due 2010 - 2011	875	875	—
Term bonds (5.15%) due 2017	5,625	5,625	—
	6,500	6,500	—
1998 Series A-3:			
Serial bonds (4.10% to 4.60%) due 1999 - 2010	4,665	4,665	—
Term bonds (5.375%) due 2022	7,000	7,000	—
Term bonds (5.375%) due 2029	9,800	9,800	—
	21,465	21,465	—
1998 Series B-1:			
Taxable term bonds (6.45%) due 2029	15,000	15,000	—
	15,000	15,000	—
1998 Series B-2:			
Term bonds (5.40%) due 2016	4,285	4,285	—
	4,285	4,285	—
1998 Series B-3:			
Serial bonds (4.10% to 5.20%) due 1998 - 2010	3,035	2,995	—
Term bonds (5.55%) due 2014	8,860	8,860	—
Term bonds (5.55%) due 2028	10,000	10,000	—
	21,895	21,855	—
1998 Series C-1:			
Taxable term bonds (6.07%) due 2025	7,300	7,300	—
	7,300	7,300	—
1998 Series C-2:			
Term bonds (5.25%) due 2017	3,710	3,710	—
	3,710	3,710	—

Bonds payable, continued	Original Amount	Balance 1998	Balance 1997
1998 Series C-3:			
Serial bonds (4.00% to 5.15%) due 2000 - 2011	4,730	4,730	—
Term bonds (5.30%) due 2013	1,655	1,655	—
Term bonds (5.45%) due 2028	270	270	—
Term bonds (4.75%) due 2028	5,000	5,000	—
Term bonds (5.45%) due 2029	13,425	13,425	—
	25,080	25,080	—
1998 Series D-1:			
Term bonds (5.15%) due 2017	3,710	3,710	—
	3,710	3,710	—
1998 Series D-2:			
Serial bonds (3.90% to 4.90%) due 2001 – 2010	3,720	3,720	—
Term bonds (5.25%) due 2028	10,000	10,000	—
Term bonds (5.35%) due 2028	145	145	—
Term bonds (4.625%) due 2030	13,000	13,000	—
Term bonds (5.35%) due 2030	4,195	4,195	—
	31,060	31,060	—
	$ 669,730	510,305	411,055

Residential Mortgage Program Fund	Original Amount	Balance 1998	Balance 1997
1988 Series A:			
Serial bonds (7.30% to 7.50%), due 1997 - 1998	$ 10,375	—	330
Serial Capital Appreciation Bonds (7.70% to 8.25%), due 1998 - 2005	4,084	—	3,248
Capital Appreciation Bonds, (8.50%), due 2008	1,070	—	872
Capital Appreciation Bonds, (8.70%), due 2012	1,129	—	730
Term bonds (8.375%), due 2019	15,340	—	5,640
	$ 31,998	—	10,820

GNMA Mortgage Program Fund		Original Amount	Balance 1998	Balance 1997
1989 Series A:				
Serial bonds (7.80% to 8.00%), due 1997 - 2001	$	11,925	880	1,740
Term bonds (8.125%), due 2006		9,875	2,345	3,360
Term bonds (8.200%), due 2020		62,000	14,770	21,165
		83,800	17,995	26,265
1990 Series B-1:				
Term bonds (7.55%), due 2010		7,620	4,890	6,685
Term bonds (7.60%), due 2015		7,905	5,070	6,930
		15,525	9,960	13,615
1990 Series B-2:				
Serial bonds (6.80% to 7.15%), due 1997 - 2001		4,170	900	1,630
Term bonds (7.55%), due 2021		11,500	—	—
Term bonds (7.80%), due 2021		13,805	8,855	12,105
		29,475	9,755	13,735
1990 Series C:				
Serial bonds (6.75% to 7.20%), due 1997 - 2002		4,075	1,170	2,000
Term bonds (7.70%), due 2010		5,955	4,120	5,650
Term bonds (7.45%), due 2021		16,000	—	—
Term bonds (7.80%), due 2021		18,970	13,065	17,985
		45,000	18,355	25,635
1990 Series D:				
Serial bonds (6.75% to 7.05%), due 1997 - 2001		3,780	715	1,305
Term bonds (7.70%), due 2010		6,945	3,950	5,415
Term bonds (7.40%), due 2021		11,250	—	—
Term bonds (7.80%), due 2021		20,025	11,380	15,610
		42,000	16,045	22,330
1990 Series F-1:				
Term bonds (7.45%), due 2010		10,015	6,770	9,095
Term bonds (7.50%), due 2015		9,305	6,280	8,440
		19,320	13,050	17,535

Bonds payable, continued	Original Amount	Balance 1998	Balance 1997
1990 Series F-2:			
Serial bonds (6.55% to 7.00%), due 1997 - 2002	6,215	1,780	2,985
Term bonds (7.75%), due 2022	19,465	13,125	17,655
	25,680	14,905	20,640
	$ 260,800	100,065	139,755

Multi-Unit Mortgage Program Fund	Original Amount	Balance 1998	Balance 1997
1983 Series A:			
Serial bonds (9.0%), due 1997	$ 405	—	—
Term bonds (9.125%), due 2002	300	250	300
Term bonds (9.375%), due 2024	1,720	1,720	1,720
	2,425	1,970	2,020
1985 Series A:			
Serial bonds (8.60% to 8.75%), due 1997 - 1999	4,045	500	960
Term bonds (9.0%), due 2005	4,100	4,100	4,100
Term bonds (9.0%), due 2013	10,095	10,095	10,095
Capital Appreciation Bonds (10.0%), due 2018	455	1,243	1,127
	18,695	15,938	16,282
1993 Series A:			
Serial Bonds (5.25% to 6.30%) due 1997 - 2003	2,185	860	1,005
Term bonds (6.6%) due 2011	2,075	2,075	2,075
Term bonds (6.75%) due 2021	4,665	4,665	4,665
	8,925	7,600	7,745
1992 Hunter's Run:			
Term bonds (7.0%), due 2003	400	230	270
Term bonds (7.25%), due 2018	1,500	1,500	1,500
Term bonds (7.35%), due 2033	5,330	5,330	5,330
	7,230	7,060	7,100

Bonds payable, continued	Original Amount	Balance 1998	Balance 1997
1997 Series M-A (Cumberland Crossing):			
Term bonds (adjustable rate) due 2028	9,200	9,175	9,200
	9,200	9,175	9,200
1997 Series M-B (Cumberland Crossing):			
Term bonds (adjustable rate) due 2028	800	798	800
	800	798	800
	$ 47,275	42,541	43,147

First Home Mortgage Program Fund	Original Amount	Balance 1998	Balance 1997
1994 Series A:			
Serial bonds (4.41% to 5.81%), due 1997 - 2008	$ 1,165	895	1,000
Term bonds (5.96%), due 2014	1,015	910	975
Term bonds (6.06%), due 2020	1,430	1,245	1,310
Term bonds (6.11%), due 2025	1,430	1,160	1,300
	5,040	4,210	4,585
1994 Series B:			
Serial bonds (4.18% to 5.68%) due 1997 - 2008	1,165	875	950
Term bonds (5.88%), due 2014	1,015	930	950
Term bonds (5.93%), due 2020	1,430	1,175	1,290
Term bonds (5.98%), due 2025	1,430	1,145	1,265
	5,040	4,125	4,455
1994 Series C:			
Serial bonds (4.16% to 5.46%), due 1997 - 2008	1,165	925	1,000
Term bonds (5.71%), due 2014	1,015	910	965
Term bonds (5.81%), due 2020	1,455	1,235	1,350
Term bonds (5.86%), due 2025	1,430	1,150	1,270
	5,065	4,220	4,585

Bonds payable, continued	Original Amount	Balance 1998	Balance 1997
1994 Series D:			
Serial bonds (4.54% to 5.64%) due 1997 - 2008	1,165	875	1,000
Term bonds (5.84%), due 2014	1,015	910	980
Term bonds (5.94%), due 2020	1,455	1,170	1,290
Term bonds (5.94%), due 2025	1,430	1,105	1,225
	5,065	4,060	4,495
	$ 20,210	16,615	18,120

Working Families Program Fund	Original Amount	Balance 1998	Balance 1997
1994 Series D:			
Term bonds (3.90%), due 1996	$ 31,265	—	—
Term bonds (5.60%), due 2009	—	4,610	5,110
Term bonds (6.35%), due 2017	—	12,110	12,110
	31,265	16,720	17,220
1996 Series B:			
Serial bonds (4.40% to 5.35%), due 1998 - 2004	3,225	2,670	3,225
Term bonds (5.80%), due 2020	6,220	5,570	6,220
Term bonds (6.45%), due 2025	13,835	13,415	13,835
Term bonds (6.45%), due 2027	7,500	7,275	7,500
	30,780	28,930	30,780
	$ 62,045	45,650	48,000

The Single Family, Residential, and GNMA, Collateralized Mortgage Obligation, Multi-Unit, First Home and Working Families Bonds are special obligations of the Authority. The bonds are payable solely from the revenues and assets pledged to the payment thereof pursuant to the Bond Trust Indentures. Hunters Run and Cumberland Crossing, two bond series within the Multi-Unit Mortgage Program Fund, are conduit issues. All scheduled advance and delinquent payments on mortgage loans, mortgage insurance and guaranty proceeds received by the Authority, and the earnings on investments of amounts held under the Bond Trust Indentures are pledged to secure the payment of the Bonds. The Bonds are also secured by a pledge and assignment of the rights and interests of the Authority in the mortgage loans and a pledge of the investment accounts of the program fund and the amounts of which are prescribed by the Trust Indentures.

The 1997 Series B, 1997 Series C, 1997 Series D, 1998 Series A, 1998 Series B, and 1998 Series C include both taxable and tax-exempt bonds. Taxable bonds were utilized to increase resources for the Authority's mortgage program.

The 1997 Series C-1 are floating rate bonds. The interest rate is the three-month LIBOR plus .25% adjusted on the second business day preceding the beginning of each calendar quarter. The General Fund purchased an interest rate cap to protect the rate from exceeding 8.0%.

The 1997 Series M-A and 1997 Series M-B Bonds have an adjustable rate that is currently remarketed on a weekly basis.

Single Family, Residential, GNMA, Multi-Unit First Home and Working Families bonds are subject to optional redemption provisions at various dates at prices ranging from 100 to 103 percent of the principal amount, extraordinary optional redemption at par from unexpended or uncommitted funds, prepayments of mortgage loans and proportionate amounts in certain related accounts or excess revenues. Following a determination that prepayments of mortgages could not be used to finance additional mortgage loans on a practicable basis due to the interest costs associated with the bonds originally issued to finance the related mortgage loans, the Authority determined to redeem $94,005,869 and $56,269,252 of bonds in 1998 and 1997, respectively, from prepayments which had been received. The Authority's policy is to make additional loans with such prepayments if it is determined to be feasible. The bond redemptions resulted in write-offs of unamortized discount and deferred debt issuance costs related to the redeemed bonds.

Scheduled amounts of principal payments in the five years subsequent to December 31, 1998 are as follows (all amounts in the thousands):

	Single Family Mortgage Program Fund	GNMA Mortgage Program Fund	Multi-Unit Mortgage Program Fund	First Home Program Fund	Working Families Program Fund	Combined
1999	$ 6,240	1,745	809	300	435	9,529
2000	7,985	1,820	874	320	455	11,454
2001	8,895	1,975	952	340	480	12,642
2002	9,305	2,090	1,023	360	500	13,278
2003	9,850	2,265	1,107	370	525	14,117

Collateralized Bank Loans

During 1993, the Authority used three bank loans to refinance or redeem bonds in the following 1980 Single Family Mortgage Indenture Series:

1983A Series
1983B Series
1984A Series
1984B Series
1983C Series

In the transaction, the bonds were redeemed at the option of the Authority at a premium and the resulting excess assets in the form of mortgage loans receivable were distributed from the 1980 Single Family Indenture to the General Fund-Investments as collateral for the bank loans. The Authority repaid the 1983 A/B bank loan in 1998.

During 1996, the Authority used one new bank loan to redeem all of the bonds from the General Fund Collateralized Mortgage Obligation Series A.

Bank loans with NBD Bank, N.A. (formerly Indiana National Bank) totaling $47,885,000 and $37,537,000 as of December 31, 1998 and 1997, respectively, are summarized as follows as of December 31, 1998 and 1997:

	1998			
	1983C Loan	**1984A/B Loan**	**1985CMO Loan**	**Line of Credit**
Original loan amount	$ 8,585,500	15,453,000	50,000,000	25,375,000
Date of loan	December 30, 1993	December 30, 1993	January 22, 1996	December 29, 1998
3-Month variable interest rate (LIBOR plus 45 basis points for 1983C and 1984A/B; LIBOR plus 30 basis points for 1985CMO; 47.5% of prime for line of credit)	5.7625%	5.7625%	5.6125%	3.68125%
Maturity date of loan	January 1, 2000	January 1, 2000	February 1, 2003	July 1, 1999
Outstanding loan amount as of December 31, 1998	$ 433,000	444,000	21,633,000	25,375,000

	1997			
	1983A/B Loan	**1983C Loan**	**1984A/B Loan**	**1985 CMO Loan**
Original loan amount	$ 7,711,000	8,585,500	15,453,000	50,000,000
Date of loan	July 1, 1993	December 30, 1993	December 30, 1993	January 22, 1996
3-Month variable interest rate (LIBOR plus 45 basis points for 1983A/B, 1983C and 1984A/B; 30 basis points for 1985CMO)	6.2625%	6.2625%	6.2625%	6.1125%
Maturity date of loan	June 30, 1998	December 29, 1998	December 29, 1998	February 1, 2003
Outstanding loan amount as of December 31, 1997	$ 507,000	1,878,000	2,399,000	31,753,000

The loans for 1983C and 1984A/B are collateralized by specific mortgage loans transferred from the 1980 Single Family Indenture to the General Fund. Covenants for these two Collateralized Bank Loans include standard reporting requirements and disclosure of a monthly asset coverage certificate whereby the designated assets for each Collateralized Bank Loan must exceed the respective liabilities by a ratio of 120%. The interest rate for the bank loans is set on a quarterly basis. During 1996, NBD Bank, N.A. reduced the interest rate on the bank loans from LIBOR plus 55 basis points to LIBOR plus 45 basis points.

The 1985CMO bank loan is collateralized by the GNMA certificates held in the General Fund Investments Indenture. The Authority purchased an interest rate cap to protect the rate from exceeding 7.875%. Asset coverage certificates are required on a monthly basis whereby the designated assets for the bank loan exceeds the liabilities by 102%. The interest rate is set on a quarterly basis.

(7) Extraordinary Items

During 1998, the Single Family Mortgage Program Fund redeemed the remaining bonds on the 1987 Series B, through an optional redemption, at a premium of 102.5% resulting in a premium paid of $155,250. The Authority also redeemed the remaining bonds on the 1987 Series C, through an optional redemption, at a premium of 102.5% resulting in a premium paid of $137,375. In addition, the Authority redeemed the remaining bonds on the 1997 Series E. These transactions resulted in extraordinary deferred debt issuance cost and original issue discount of $145,549 and $2,949, respectively.

(Continued)

During 1998, the Residential Mortgage Program Fund redeemed the remaining bonds on the 1988 Series RA. This resulted in an extraordinary write-off of deferred debt issuance cost and original issue discount of $141,704 and $4,638, respectively.

During 1997, the Single Family Mortgage Program Fund redeemed the remaining bonds on the 1986 Series B, through an optional redemption, at a premium of 102.5% resulting in a premium paid of $146,375. The Authority also redeemed the remaining 1987 Series A bonds through an optional redemption. Both transactions resulted in extraordinary deferred debt issuance cost and original issue discount of $66,235 and $90,286, respectively.

During 1997, the GNMA Single Family Mortgage Program Fund redeemed the remaining outstanding bonds of 1990 Series A. This resulted in an extraordinary write-off of deferred debt issuance cost of $20,374.

(8) Commitments

As of December 31, 1998 the Authority had the following commitments:

Lease

Lease expense of the Authority was $156,899 in 1998 and $165,145 in 1997. Future lease commitments under the noncancellable operating lease for 1999 are $101,630 through August 31, 1999. The Authority is currently exploring future options (beyond 1999) for its operating lease.

Excess Investment Earnings

In order to preserve the exemption of federal and state income taxation on interest received by the bond holders, each bond issue is subject to certain Internal Revenue Code (IRC) and U.S. Treasury Regulations. Under these regulations, the Authority is required to pay the federal government any excess earnings as defined by IRC Section 148(f) on all nonpurpose investments if such investments were invested at a rate greater than the yield on the bond issue.

The Authority's liability, included in accounts payable and other liabilities on the combined balance sheet, for excess earnings at December 31, follows:

	1998	1997
GNMA Mortgage Program Fund	$ 237,190	230,000
Working Families Program Fund	549,973	549,973
	$ 787,163	779,973

Distributions

In November 1997, the Board of Directors of the Authority approved an annual distribution from the General Fund to other independent programmatic funds at the Authority. In 1998, the Authority distributed $1,155,000 to the Low Income Housing Trust Fund (LIHTF) and the $300,000 Down Payment Assistance Fund (DPA). These funds are administered by the Authority with the LIHTF funded primarily by Legislative appropriations, borrowings and distributions from the Multi-Unit Mortgage Program Fund (see note 1) and the DPA funded primarily by Federal HOME Funds. The Board of Directors plans to designate the distribution amount in March or April 1999, which is planned to be a percentage of the net operating results of the General Fund Administration and the General Fund Investments.

(9) Retirement Plan

(a) Plan Description

The Authority contributes to the Indiana Public Employees' Retirement Fund (PERF), an agent multiple-employer retirement system that acts as a common investment and administrative agent for units of state and local government in Indiana. PERF was created and is governed by state statutes I.C.S. 5-10.2 and 5-10.3. As such it is PERF's responsibility to administer the law in accordance with the expressed intent of the General Assembly. The plan is qualified under the Internal Revenue Code Section 401(a) and is tax exempt.

The plan is a contributory defined benefit plan which covers substantially all Authority employees. PERF retirement benefits vest after 10 years of service. Effective July 1, 1995, Senate Bill 74 enabled PERF members to be eligible for early retirement with 100% of the defined benefit pension if certain conditions were met. An employee may retire with full benefits at age 60 with 15 or more years of service or at age 55 if the employee's age plus years of service equals 85 or more (Rule of 85). If neither of the above conditions are met, an employee may retire with 100% of the defined pension at age 65 with 10 or more years of service. This annual pension benefit is equal to 1.1% times the average annual salary times the number of years and months of PERF-covered employment. The average annual salary used for calculating the pension benefit is an average of the employee's highest five years of employment earning within the 10 years preceding retirement. Employees who retire between the ages of 50 and 65 with 15 or more years of service receive a pension benefit that is reduced by .100% for each of the first 60 months and by .417% for each of the next 120 months that the benefit commencement date precedes the normal retirement date.

Employees have two choices regarding their annuity savings account. They may elect to receive the contributions and accumulated earnings in a lump sum at retirement, or, they may choose to receive the annuity amount as a monthly supplement to their employer-provided pension described in the paragraph above.

PERF issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERF, Harrison Building, Suite 800, 143 West Market Street, Indianapolis, Indiana 46204.

(Continued)

(b) Funding Policy

The Authority contributes the employees required contribution of 3% of their annual salaries to an annuity savings account that may be withdrawn at any time with interest should an employee terminate employment. The Authority is required by state statute to contribute at an actuarially determined rate. The current rate is 5.7% of annual covered payroll. The contribution requirements of plan members are determined by State statute.

(c) Annual Pension Cost

For the 1998 plan year, the Authority's annual pension cost of $77,800 was equal to the required and actual contributions. The PERF funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so that sufficient assets will be available to pay benefits when due. The rate for the Authority's employee group as a whole has tended to remain level as a percentage of annual covered payroll. The required contributions were determined as part of the June 30, 1998 actuarial valuation using the entry age normal cost method. The asset valuation method is 75% of expected actuarial value plus 25% of market value. The actuarial assumptions included (a) a rate of return on investment of present and future assets of 7.25% per year, compounded annually; (b) projected salary increases of 5.00% per year, attributable to inflation; and (c) assumed annual post retirement benefit increases of 2.00%. PERF uses the level percentage of payroll method to amortize the unfunded liability over a closed 40-year period.

(d) Historical Trend Information

Historical trend information about the Corporation's participation in PERF is presented below to help readers assess the plan's funding status on a going-concern basis and assess progress being made in accumulating assets to pay benefits when due.

	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligation
December 31, 1998	$ 77,800	106%	$ (4,300)
December 31, 1997	70,700	99%	7,000
December 31, 1996	62,600	91%	6,200

Valuation date	(1) Actuarial value of assets	(2) Entry age actuarial accrued liability	(2-1) Assets in excess of accrued liability (AEAAL)	(1/2) Funded ratio	(3) Annual covered payroll	[(2-1)/3] AEAAL as a percentage of covered payroll
June 30, 1998	$ 1,467,000	1,346,000	(121,000)	100.0%	$ 1,109,000	—
June 30, 1997	1,305,000	1,322,000	17,000	98.7%	1,157,000	1.47%
June 30, 1996	1,204,000	1,226,000	22,000	98.2%	1,114,000	1.97%

(Continued)

(10) Required Supplementary Information (Unaudited)

The Year 2000 Issue refers to potential problems with computer systems or any equipment with computer chips or software that uses dates where the date has been stored as just two digits (e.g. 99 for 1999). On January 1, 2000, any clock or date recording mechanism incorporating date-sensitive software which uses only two digits to represent the year may recognize a date using 00 as the year 1900 instead of the year 2000. This could result in a system failure or miscalculations causing disruption of operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in similar business activities.

The Authority has implemented a plan for Year 2000 readiness and compliance of its computerized information systems which is comprised of five stages that are consistent with GASB Technical Bulletins:

Awareness Stage – Establishing a budget and project plan to address potential problems.

Assessment Stage – Identifying all affected systems.

Remediation Stage – Implementing necessary changes to affected systems including converting existing systems, changing or upgrading to compliant systems.

Validation and Testing Stage – Testing modified systems to ensure no errors resulted from the remediation stage and that all solutions were successful.

Implementation Stage – Using new or upgraded systems which have been successfully tested.

The Authority has performed a basic analysis of its computer hardware, software, and office equipment for Year 2000 compliance. The Authority is currently working in the remediation stage andexpects to complete the upgrade or replacement of necessary systems and equipment by September 30, 1999 in order to make them Year 2000 compliant. To date, no Year 2000 issues have arisen that would prevent the Information Systems Department from meeting its deadlines for evaluation and compliance and that the Authority's operation will not be adversely affected by its computer systems and other technology. Amounts spent or payable as of December 31, 1998 have not been material, and the costs expected to be incurred to obtain full compliance are not expected to be material in comparison with the Authority's financial statements. Finally, the Authority is soliciting Year 2000 updates from organizations with whom it works closely and those updates are being reviewed and evaluated. The Authority does not currently anticipate that Year 2000 compliance issues of partner organizations will have a material adverse effect on the Authority. Operating results, however, may be adversely impacted if the systems of those significant partner organizations with whom the Authority transacts business are not Year 2000 compliant in a timely manner.